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### **Ariz. budget staff increases budget gap estimate**

PHOENIX (AP) - Legislative budget analysts said Wednesday that they underestimated the magnitude of Arizona's economic problems and now believe the revenue shortfall will be larger than previously projected.

However, State Treasurer Dean Martin said the Joint Legislative Budget Committee staff's new, higher estimate still appears low by hundreds of millions of dollars.

Citing the housing industry's collapse and other economic woes, the JLBC staff estimated the shortfall in the \$9.9 billion budget at between \$700 million and \$1.1 billion.

Just two weeks earlier, the JLBC staff had estimated the range at between \$500 million and \$1 billion.

The higher JLBC range incorporates newly available University of Arizona economic modeling and new projections from private and government economists, the staff said.

But Martin said state accounts' cash-flow trends indicate that the revised JLBC revenue forecast is low by \$300 million to \$400 million.

"I think \$1.1 billion is too optimistic," he said. "We've been too optimistic in all of our previous forecasts."

Gov. Janet Napolitano latest shortfall projections, now two weeks old, range from \$320 million to \$800 million.

Planning for now on midrange of a \$450 million shortfall, she has clamped new cost-cutting restraints on state agencies and outlined possible steps that lawmakers can consider to keep the budget in the black, possibly during a lame-duck special session sometime after the Nov. 4 election.

Napolitano and lawmakers largely papered over gaps in the current and previous budgets, cutting some spending but also relying heavily on borrowing, raiding special-purpose funds and nearly emptying the state's rainy day reserve. Most of those traditional, relatively painless budget-balancing options are used up or nearly so.

JLBC Executive Director Richard Stavneak said the economic slump had state tax collections in the current fiscal year's first three months fall 9 percent below a year ago.

Sales tax revenue, the state's largest tax revenue source, was down 7.4 percent, while individual and corporate income tax revenues were down 4.9 and 27.4 percent, respectively.

While estimates a year ago centered on a V-shaped trough in which the economy would rebound quickly, it's now apparent the trough will be a longer-lasting, flatter U-shape, Stavneak said. "We clearly got the magnitude wrong," he said.

So don't look for a recovery before the 2010-2011 fiscal year, Stavneak said during a meeting of a finance advisory committee that includes government and private economists. "We get back to the more normal range in '11 and '12," he said.

Before that, the 2009-2010 budget that lawmakers will draft next spring could see a shortfall ranging from \$1.9 billion to \$2.6 billion, depending on use of one-time budget maneuvers and whether a repealed property tax takes effect again, the JLBC staff said.

Arizona has a "scary wild card" looming beyond the poor economic conditions, a Department of Revenue official who serves on the advisory committee.

New tax breaks for film productions and business donations for private school tuition grants could subtract well over \$100 million of revenue if claimed on tax returns filed in 2009, said Georganna Meyer, a DOR senior economist.

Additional tax breaks in those two categories are also available but have not yet been approved, she said. "It's the ones that have already been approved and already donated that are worrisome," Meyer said.